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TAGS: [ECON](#) [ETRD](#) [PGOV](#) [PREL](#) [RS](#) [AG](#)
SUBJECT: PUTIN VISIT RESULTS IN SUBSTANTIAL DEBT
FORGIVENESS, BUT ARMS PURCHASES REMAIN UNCLEAR

Classified By: Ambassador Richard W. Erdman,
Reasons 1.4 (b) and (d).

SUMMARY AND COMMENT

¶1. (C) Russian President Putin's March 10 visit to Algeria, the first by a Russian president, has produced a substantial debt forgiveness package, some commercial and investment agreements, and talk about a possible energy clearing house deal. But the details of the debt forgiveness package and possible arms purchases (especially MiGs) so far remain elusive, and no one in a position to know is talking. Speculation about MiGs has ranged from 14 to 36, or perhaps even none. In addition, aspects of the visit, including the last-minute shortening of the visit from two days to seven hours, the fact that the visit was switched to a Friday (the Muslim holiday day on which the GOA has expressly told mission visits should not be scheduled), and the sudden disappearance of the Russian ambassador from State functions where he would normally be present, have spurred quiet diplomatic speculation that beneath positive-sounding rhetoric, there may have been some problems. That said, in his State lunch toast, President Bouteflika said the visit would enhance the "strategic partnership" between Algeria and Russia that was launched during his own 2001 visit to Moscow, and MFA Secretary General Lamamra told Ambassador March 14, on the margins of A/S Welch's visit, that the visit had been a "great success" and that the \$4.7 billion debt forgiveness package was similar in size but not in percentage to the package recently extended to Syria. We will continue to probe GOA and Russian contacts here, but it's clear at this stage that neither are inclined to share details about the military package. We would be interested in anything Embassy Moscow can learn from their end. (End summary and comment.)

UNCERTAINTY OVER DEBT FORGIVENESS TERMS

¶2. (C) Uncertainty remains regarding the details of the Algerian debt forgiveness agreed upon during President Putin's visit. The official government daily newspaper El Moudjahid and Algerian radio reported that Algeria and Russia agreed upon an accord whereby Russia would cancel Algeria's USD 4.7 billion in debt in exchange for the purchase of goods and services worth the same amount. (Note: Russian-Algerian trade totaled USD 364 million in 2005, according to press reports. End note.) The Tunisian Ambassador told Ambassador, however, that Russia had offered Algeria well before the visit a debt forgiveness package whereby Moscow would forgive

70 percent of Algiers' debt outright and offer debt swaps for the remaining 30 percent. Originally, the Algerians had accepted this approach. However, once the Russians offered the Syrians 100% forgiveness, the Algerians back-tracked and demanded the same treatment. Disagreement over this issue, according to the sometimes conspiratorial-minded Tunisian Ambassador led the Russians to shorten the visit in order to pressure the Algerians. When Ambassador asked MFA Secretary General Lamamra if there had been disagreement over the terms because of the Syrian treatment, Lamamra confirmed that 4.7 billion had been forgiven. While this had not been the same percentage the Syrians had received, he said it had been roughly the same amount in dollar terms.

13. (C) The Algerian press picked up an announcement by the head of MiG to Russian television claiming that Algeria agreed to purchase some USD 7.5 billion worth of Russian arms. So far DATT has not been able to confirm or deny the sale with any Algerian military officers, and the Russian Ambassador notably absented himself from State functions surrounding the March 11-13 visit of the South Korean President, as if he wanted to avoid probing questions from his ambassadorial colleagues. Nor is it clear if such an arms deal was part of the debt forgiveness scheme or comprised a separate agreement. Russian news agency Interfax reported that the deal included 36 MiG-29 fighters, 28 Sukhoi-30s, 16 Yak-130 training planes, 40 tanks, and eight battalions of S-300PMU2 rocket systems. The Ukrainian Ambassador to Algeria told Ambassador he understood that 14 used MiGs had been purchased as well as 40 tanks. However, according to an Algerian contact with established connections to the Algerian military, the total value of the arms deal was closer to USD 3 billion and involved 28 MiG-29 fighters, 30 SU-30s, a squadron of Yak-130s, and an unspecified number

of tanks and other ground equipment. As a possible indication that the deal did not meet Russian expectations, a European military attache told DATT that the Russian Chief of Staff has postponed a planned March visit to Algiers until sometime in the November-December time period although it is not known if the postponement was related to the planned arms sale.

PRESUMED DISCUSSIONS ON NATURAL GAS

14. (C) According to the Ukrainian Ambassador to Algeria, the Russians included a large number of individuals from Gazprom.

In this regard, the Ukrainian Ambassador expressed concern to Ambassador March 13 that Russia was trying to undercut the value of Ukraine as a transit point for natural gas. While a final deal had not emerged, a large Gazprom delegation would return to Algeria in April for talks. El Moudjahid subsequently reported Minister of Energy and Mines Chakib Khelil's March 13 interview with Russian daily Prima Novosti in which he said Algerian state-owned energy company Sonatrach was "inclined" to pursue an exchange of quotas with Gazprom.

15. (C) Under such a clearing arrangement, because of the difficulties Russia faced in exporting LNG directly to the U.S., Sonatrach would ship LNG to U.S. markets on behalf of Gazprom while Gazprom (in addition to its own exports) would supply Europe an equal value of natural gas on behalf of Algeria through its pipeline. Khelil revealed that Sonatrach and Gazprom had begun negotiations regarding a possible LNG project in Russia, although he noted there were no specific projects at this time. The two sides, he indicated, were merely exchanging information and studying the question of investment. Khelil noted that Russia and Algeria were the first countries to begin discussions of a gas exporters "club," which held its first meeting in December 1999. He stressed that the club was not an organization similar to OPEC, but rather a forum for gas exporters to exchange information. Khelil further highlighted the Russian exploration and extraction companies currently present in Algeria, including the firms Rusnaft and Stroytrawgaz.

OTHER ACCORDS SIGNED

16. (U) In addition to the agreement regarding the disposition of Algeria's debt, Russian Foreign Minister Sergey Lavrov and Algerian Foreign Minister Mohamed Bedjaoui signed agreements intending to eliminate double taxation between Algeria and Russia, protect investments, and establish cooperation between the two countries' chambers of commerce. Algerian and Russian media noted railway and energy contracts were also signed at the ceremony. The Algerian Minister of Transport noted privately to Ambassador, however, that an agreement related to air links were not significant since the existing air links were unprofitable due to the lack of passenger traffic.

17. (U) Lavrov told Algerian radio and print media after his meeting with Bedjaoui that their talks also covered ways to "revive" economic cooperation between the two countries through trade to a level commensurate with their political relations. Bedjaoui added that their talks also focused on international and strategic issues, including Iraq, Iran's nuclear program, and the Western Sahara.

ERDMAN